

Insurance Sweden's response to EIOPA's Public consultation draft Advice on minimum common standards for IGS in the EU

1. Introduction

Request for technical advice

Do you have any comments on the following paragraphs?

1.1: General comment on the draft Advice:

As a member of Insurance Europe, we share the views expressed in their response to the consultation on the draft of EIOPA's Advice on IGS (henceforth the Advice). However, we wish to highlight and elaborate further on issues important for the Swedish insurance market.

This concerns especially the behavioural study, which we have noted to have many flaws and therefore leads to incorrect conclusions especially regarding Swedish consumers. We will give a number of examples in the response, see in particular our comments to paragraph 1.10 and 3.19 – 3.20. We, therefore, believe the study's results cannot be treated as reliable evidence of how consumers would actually respond to there being or not being an IGS in real purchasing decisions. At least all reference to Sweden should be deleted from the behavioural study. Furthermore, this study shows that there are problems with moral hazard of IGS, which is disregarded in the Advice.

That all EU citizens have very high level of protection and do not experience significant hardship from failures of an insurance company is supported. However, the Swedish insurance industry strongly opposes any common standards for insurance guarantee schemes (IGS) and, thereby, harmonization at EU-level implying mandatory establishment of national IGS. The policyholders in Sweden and in the rest of EU are already very well protected by regulatory requirements, especially Solvency II, and effective monitoring by supervisors. There have been no insurance failures in Sweden over decades according to PACICC and there is no evidence that existing resolution processes are not sufficient if needed. Solvency II has since it was introduced in 2016 a high level of protection and supervisory oversight and this will be even enhanced further by the Solvency II Review. In addition to reducing the risk of failure to very low levels, Solvency II is also designed and calibrated to ensure that, in the case of a failure, material capital beyond that held to cover the liabilities would still be in the company to help avoid customer losses. This explains why in practice, even in rare cases of actual failure, customer losses have often been avoided, without the need for the IGS. The IRRD adds further requirements which can further reduce the need national IGS and how any such legislation would work

Introducing common standards for IGS and, in particular, requirements of national IGS should only be done if a thorough assessment shows on a national basis, strong evidence of a real need and the benefits materially exceed the costs, which has not been carried out in the Advice. Otherwise, the common standards will only impose even more costs and complexity for the insurance companies that will run counter to the commitments to simplify and reduce burden and

costs of regulations in EU. New legislations should only be added when it is truly necessary, which the Advice does not present evidence of.

1.2: There are very good reasons why insurance contrary to banking do not have a need for harmonisation of guarantee scheme in the EU. Banks have a fundamental and unavoidable mismatch between their duration of assets and liabilities. In addition to this, the core product is a current account designed and intended for customers to have immediate access to their money at all times. This means that the system is vulnerable to a bank run in case of real or incorrect news about the bank's liquidity or solvency. There is significant evidence from past bank runs and failures as well as behavioural science that bank deposit guarantee schemes are needed and benefits outweigh the costs. None of this applies to insurers, where there is no evidence of the need or benefits of IGS outweighing the costs. This should be recognized in this paragraph and elsewhere in the Advice.

The Single Market works for insurers, but not yet for policyholders: the current landscape of IGS in the EU

Do you have any comments on the following paragraphs?

1.3: IGS is not the only reason why the level of protection for policyholders differs between Member States. Furthermore, the level of protection can be at least as high without IGS. Any issues with cross-border business should be solved in a more focused way that does not impose new mandatory requirements and general costs across the entire EU. Instead of harmonization IGS, it is much more efficient to handle cross-border issues by:

- enhance collaboration between the Member States' national supervisors (which the supervisors already do to some extent, especially for cross-border groups).
- ensure that the Solvency II framework, which provides strong consumer protection, is fully implemented in all Member States and supervised as intended and required. This protection will become even stronger when the amendments to Solvency II ((EU) 2025/2) enter into force 30 January 2027, particularly through enhanced supervision of insurance companies conducting cross-border business and strengthened supervisory cooperation.
- prioritize preventive supervisory efforts across the EU, especially increased monitoring of cross-border insurers with rapid growth, unusually low premiums, or narrow product ranges.
- assessment of the limited past failures to identify both management and supervisory shortcomings and using them to improve oversight to either avoid future failures or to use available supervisory powers to intervene early enough to customer losses.

We believe that it should be analysed thoroughly if there are more efficient ways to solve cross-border issues than imposing costly and unnecessary harmonization of IGS. Such analyse has not been carried out in the Advice.

1.4: See comment on 1.3.

1.5:

1.6:

1.7: The existence of IGS in some Member States does not justify requiring that all countries must have it. Thus, level playing field, as referred to in the paragraph, is not a valid argument for harmonization of IGS. Some Member States may need IGS due to evidence of unacceptable levels of customer losses, greater reliance on insurance linked to their welfare systems or that some insurance policies are mandatory. In others such justification is lacking and could even be harmful, especially if it leads to great costs for the insurance companies that will in the end be paid by the policyholders by higher premiums. In turn, higher premiums might lead more consumers to go uninsured, thereby reducing the overall insurance protection in Member States. In the Advice it is recognised that the cost will be higher in those Member States that currently has no IGS as there is no need for it. Thus, especially in these Members there is a great risk that the overall protection will be reduced. This risk is not addressed in the Advice.

We believe that instead of harmonization, the European Commission together with EIOPA could provide good non-binding guidance on IGS. Such non-binding guidance could be very helpful for those Member States who want to introduce or expand their IGS. There are good recent examples when the Commission has developed good non-binding guidance in the context of the Savings and Investment Union, for example the blueprint of savings and investment account and the recommendation on auto-enrolment of occupational pension. This possibility of introducing non-binding guidance instead of requirements is not examined in the Advice.

1.8:

An IGS framework that helps the Savings and Investments Union *Do you have any comments on the following paragraphs?*

1.9: Statistics from Eurostat shows that Sweden is in top in the EU regarding household savings in insurance savings products and similar investments-based products. This statics also shows that Swedish households' deposits in relation investment-based product are low in an EU comparison. Thus, there is already high consumer trust in Swedish insurance companies. The fact that Sweden has no IGS shows that this trust relates to something different than IGS. It also shows that there is acceptance of risk among Swedish policy holders. In addition, statistics from EIOPA shows that Swedish policyholders with unit-linked policies invest much more in equity funds than policyholders with unit-linked policies in other Member states. This trust and acceptance of risk among Swedish policyholders is related to the solvency of the insurers and, especially, the value for money of products, and not as claimed in the Advice from the availability of IGS. In the Advice there are many such claims, which can easily be rejected by experiences in Sweden and in other Member states. This should be mentioned in 1.9 and elsewhere in the Advice.

1.10: We believe the behavioural study is very problematic and not robust, and should, therefore, not to be referred to here and elsewhere in the Advice. For example:

- The credibility of the study is significantly undermined by the finding in Figure 16 in the study that between 20 per cent and 31 per cent of respondents across all five countries considered domestic insurer bankruptcy likely — including 20 per cent in Sweden where no insurer according to PACICC has failed for at least 25 years. Given the extremely low rate of actual failures, a result so disconnected from historical reality strongly suggests respondents either fundamentally misunderstood the nature of insolvency risk, confused insurer failure with more common experiences such as claim rejection, or were primed/nudged by the study's repeated presentation of bankruptcy scenarios to artificially inflate their perception of failure likelihood — in any of these cases, the stated preference results cannot be treated as reliable evidence of how consumers would actually respond to IGS protection in real purchasing decisions.
- From e.g. Figures 5-6 in the study it appears the respondents have not understood the concept of IGS as “not confident” is much larger than “confident” for the group with IGS (i.e. TG). In addition, as the difference between CG (i.e. without IGS) and TG is small in this graph demonstrates that IGS will not solve any trust problems with foreign providers.
- It is also very unclear what is meant by “foreign providers” in the study. Is it subsidiaries or branches of a foreign insurance company/group? Or is it foreign providers not currently active in that market? In either case, the policyholders are that aware of the differences, which distorts their response.
- The study assume that the “foreign provider” can offer 16 per cent or even 24 per cent lower price than local providers which is highly questionable. Even, assuming such high price differentials were possibly to be offered safely, the study indicates very limited impact:
 - For non-life insurance, the IGS treatment effect on household insurance in Figure 1 -3 cross-border purchasing is, at the 16 per cent price level, essentially zero at country level and even at the 24 per cent price gap the results remain insignificant across all countries — with no country-level relevance at either price differential.
 - For life insurance in Figures 11 – 13 in the study, the IGS treatment effect on life insurance cross-border purchasing is only significant for one country at equal pricing and you need a 24 per cent price gap to get meaningful movement, and even then, only in one additional country.

Given these and other limitations of the study, we do not believe conclusions can be drawn about the true effects of IGS, if any, on the behaviour of policyholders.

1.11: A harmonised IGS framework would impose significant burden and costs on the entire insurance industry. Such costs would negatively affect insurers in the Member States. Harmonization of IGS would, therefore, not strengthen competitiveness or promote business growth within Europe. On the contrary, the additional burdens and costs would reduce insurers’ capacity to invest, innovate, and offer affordable products, ultimately making the European insurance market less attractive. Thus, contrary what is claimed in the Advice, harmonization of IGS will go against the ambitions of the SIU. To avoid unnecessary and unjustified burdens and costs in order to successful delivery on SIU, it is key to maintain the current national discretion on the establishment and the features of the IGS.

2. Approach taken

Legal framework

Do you have any comments on the following paragraphs?

2.1:

2.2:

2.3:

2.4:

Thematic areas of policy advice

Do you have any comments on the following paragraphs?

2.5:

Objectives for policy assessment

Do you have any comments on the following paragraphs?

2.6:

2.7:

Preferred policy options

Do you have any comments on the following paragraphs?

2.8:

3. EIOPA's advice for each thematic policy area

I General questions about the impact of minimum harmonized IGS

Do you have any comments on the sub-section of I. General questions about the impact of minimum harmonized IGS?

Do you have any comments on the following paragraphs?

3.1:

Analysis of the impact of covering different insurance policies

Do you have any comments on the following paragraphs?

3.2:

Level of standardization of the eligible insurance policies across the EU

Do you have any comments on the following paragraphs?

3.3: The insurance markets differ in the EU. On a high level, as it is done in the Advice, the non-life policies in the Member States can tend to be rather similar and standardized. However, if studied more in a granular level it is evident that there are significant differences. One significant difference is how non-life insurance products are sometimes bundled, i.e. a package of insurance.

In Sweden and some other countries home/household insurance policies are very extensive and includes besides property insurance (fire, theft etc) also coverage of claims that arise e.g. while traveling and due to liabilities, legal expertise, and natural catastrophes. In other countries many of these insurance coverages is additional policies and must be bought separate to the home/household insurance. This has not been taken into account in the Advice and must be addressed. If not done correctly, it would have negative implications for the policyholders and beneficiaries.

3.4: It is true that IBIPs could have some high-level features that to some extent are common. However, on a more detailed level there are significant difference between IBIPs in terms of e.g. what underlying assets (investment funds, equities etc.) and if there are some guarantees or not. Thus, the Advice should not claim that IBIPs are standardized, as it is done this paragraph.

3.5:

3.6:

Cross-border relevance of the different insurance lines of business

Do you have any comments on the following paragraphs?

3.7:

Impact of the coverage of eligible policies in terms of protection for policyholders

Do you have any comments on the following paragraphs?

3.8:**3.9:**

3.10: The estimation of potential benefits builds on many strong assumptions, for example regarding the LGD of 15 per cent of insurance liabilities. Also in the referred study, there are no valid motivation of this figure. There is no summary of recent failures (presented in a table or similar), but the estimated loss of EUR 0.51 billion per year appears far higher than any actual historical reported losses in any year. The examples provided in the Advice supports the view that that the estimates appear to strongly overestimate the actual or potential losses. One reason for an overstatement arises because EIOPA's application of a uniform probability of default to all insurers with assets exceeding €12 billion fails to account for the significant skewness within this category, where the largest groups — which hold a disproportionate share of technical provisions — face materially lower default risk due to greater supervisory scrutiny, diversification and capital strength; this almost certainly overstates expected losses, potentially significantly.

Furthermore, the analysis in the Advice and the JCR studies it refers to, appear to ignore that under Solvency II, supervisors have powers and should intervene as soon as the SCR is no longer complied with, or there is a risk of non-compliance within the following three months. This intervention includes stopping dividends and other capital releases and imposing restrictions on new business. At this point, Solvency II has been designed so that the company has capital buffers to reduce the risk of customer loss in the case a run-off or sale if required – these buffers arise from the Risk Margin, the MCR and that liabilities are valued at a conservative discount rate. These buffers help explain why in practice even in the rare event of an actual failure, even where there is no IGS, actual cases of customers suffering material losses are even lower.

In addition, the Advice underestimate the costs of IGS for the industry as it suggests that there only costs to set up the IGS and for the ex-ante funding. However, if there would be a failure independent of it is ex-ante or ex-post the industry would have to paid for the failing insurance companies. Thus, the estimated losses are yearly costs for the industry with will be even higher due to additional operational expenses.

Introducing common standards and, in particularly, requirements for a national IGS should only be done if a thorough assessment shows, on a national basis, strong evidence of a real need and of benefits materially exceeding costs. A thorough cost-benefit analysis is not carried out in the Advice, thus there are no valid of evidence of the need of harmonisation.

3.11:**3.12:****Impact of the coverage of eligible policies for the insurance sector**

Do you have any comments on the following paragraphs?

3.13:

3.14: We strongly question the claim in the Advice of long-term economic benefits of IGS for the insurance industry, especially that there will be an uptake. In Sweden the consumer protection and trusts are already very strong and the costs and other disadvantages of IGS will clearly outweigh the benefits. Instead, the costs of IGS would lead to increased premiums for Swedish policyholders, risking a reduction in the level of overall insurance protection.

For example, according to Statistics Sweden 97 per cent of the Swedish population (16 years and older) are covered by an extensive household/home insurance. The reason why 3 per cent are not covered by such an insurance is not due to that Sweden does not have IGS. People that are unemployed, have income significantly below average and have just arrived in Sweden have household insurance to a lesser degree than the rest of the population. Thus, the main reason for not having home insurances is economical and to some extent lack of understanding of the importance to be insured. Introducing IGS in Sweden that will increase the costs, i.e. the premiums, of household insurance and as consequence will just lead to fewer Swedish people having such insurance. Thus, there will not be an uptake of insurance for Swedish insurance companies, rather the opposite. The fact that harmonization of IGS and, thereby, requirement of establishment of IGS can have such negative effects in Sweden and elsewhere in the EU are neglected in the Advice.

3.15:

3.16: To avoid unnecessary and unjustified burdens and costs, it is key to maintain the current national discretion on the establishment and the features of the IGS. This includes the coverage of the IGS. In addition, the Advice does not reflect that many of the non-life insurance that is pointed as eligible candidates are often sold as packages with policies that are not eligible candidates, i.e. bundled (see also comment on 3.3.). This is the case for some Member States with home/household insurance. That would mean that just some parts are covered by IGS for these insurance products. If the IGS covered are extent to cover all insurance elements of the products, then the cost of IGS will be significantly higher. This is just one of the complex problems that are neglected in the Advice.

3.17:

Reduction of fragmentation in the Single Market

Do you have any comments on the following paragraphs?

3.18: The Advice should refrain from referring to the behavioural study, see comment to 1.10.

3.19: The Advice should refrain from referring to the behavioural study, see comment to 1.10. In addition, according to the Advice, the study found that introducing harmonized IGS increases consumers purchasing of insurance. This because the "Neither"-category is less for TG (with IGS) than CG (without IGS) in e.g. Figure 1. As mentioned in our comments to 3.14 97 per cent of the Swedish population are covered by household/home insurance according to Statics Sweden. However, around 30 per cent of the Swedish respondents in CG chose Neither in Figure 1 in the study for household insurance. With the same interpretation as 3.19 that will mean that only around 70 per cent of the Swedish population would have had home insurance. This shows that the claim made in 3.19 is completely wrong, Furthermore, this is further evidence of the big flaws of the study as well as the lack of knowledge about different insurance markets in the Advice. Thus, the study cannot be used to claim that harmonized IGS will increase the likelihood of consumers purchasing insurance, as is done in 3.19.

These problems get even more severe in Figure 6 in the study for supplementary health insurance. Around 10 per cent of the Swedish population (16 years and older) have such insurance. However, in Figure 6 that Neither-category is smaller for supplementary health insurance (24 per cent) than for household insurance (29 per cent) in Figure 1. If the same interpretation is used as in the Advice that would mean that the study shows that the demand for supplementary health insurance is larger than household insurance in Sweden, which is completely incorrect. If the study shall still be used in the Advice, then at least all references to Sweden in the study should be deleted as these responses make no sense.

3.20: The Advice should refrain from referring to the behavioural study, see comment to 1.10. In addition, in 3.20 the study is used to claim that harmonized IGS would enhance consumers' willingness to engage with cross-border insurance providers when offered at competitive prices. The studies definition of competitive prices is 24 per cent lower premiums than domestic providers. In Sweden, as discussed in our comments to 3.3, are extensive and includes more than property insurance. To be able to offer home insurance in Sweden that are 24 per cent lower than its' competitors would require that the household insurance is less extensive than currently is the case. In order to compete with the foreign insurance provider, the domestic providers would also need to reduce their insurance coverage. Thus, the Swedish policyholders would be less protected, which is a severe unwanted development.

If the foreign insurance provider would not reduce the insurance coverage, that would mean that that these providers take larger risks than its Swedish competitors. Higher risk taking among certain insurers is often an early warning signal of an unsustainable business model, that in many cases should be obvious for the policyholders. Thus, the study findings can be interpreted as with IGS the policyholders are less careful of which providers the buy insurance from as it weakens their incentives to assess the insurers. Thereby, the study can be used as evidence that IGS leads to problems with moral hazard, which is completely neglected in the Advice. Thereby, the costs of failure shifts from weaker to stronger insurers and, ultimately, their policyholders. This in turn, weakens market discipline and blurs the link between risk and cost. These problems with IGS due to moral hazard are not discussed in the Advice.

3.21: The Advice should refrain from referring to the behavioural study, see comment to 1.10. Especially the first two bullets in our comments to 1.10 contradict the claims made in 3.21.

Evaluating different structural set-ups for IGS

Do you have any comments on the following paragraphs?

3.22:

3.23:

3.24:

3.25:

II Operational functioning of IGS

Do you have any comments on the sub-section of II. Operational functioning of IGS?

Do you have any comments on the following paragraphs?

3.26:

3.27:

Trigger moment(s) for IGS activation

Do you have any comments on the following paragraphs?

3.28:

3.29:

3.30:

3.31: To avoid unnecessary and unjustified burdens and costs, it is key to maintain the current national discretion on the establishment and the features of the IGS. This includes the trigger moment for IGS activation. Thus, there could be strong reasons for some Member States to have the trigger moment proposed in the Advice, while for others Member States there could be other much more suitable trigger moments.

Time for submission of claims in compensation cases

Do you have any comments on the following paragraphs?

3.32:

3.33:

3.34:

3.35: To avoid unnecessary and unjustified burdens and costs, it is key to maintain the current national discretion on the establishment and the features of the IGS. This includes the time allowed for policyholder to make their claims. Thus, we don't agree with the Advice that this time should be harmonized.

Deadline for payouts to policyholders in compensation cases

Do you have any comments on the following paragraphs?

3.36:

3.37:

3.38:

3.39: To avoid unnecessary and unjustified burdens and costs, it is key to maintain the current national discretion on the establishment and the features of the IGS. This includes the deadline for payouts from the IGS to policyholders due to that e.g. operational constraints and the complexity of handle of claims differ between Member States. Thus, we don't agree with the Advice that there should be a harmonized maximum time for payouts. We also note that the Advice doesn't include a proposal of what the maximum time should be and, therefore, have no specific comments of the details of the maximum time.

Conditions and timing for continuation of policies by IGS

Do you have any comments on the following paragraphs?

3.40:**3.41:****3.42:**

3.43: We support the view in the Advice that the conditions and timing of continuation of policies by IGS should not be harmonized and instead there should be guiding principles on this. However, we believe that the non-binding guiding principles should not only cover continuation of policies by IGS, but all aspects of the design/features of the IGS (see also our comments to 1.7). This to avoid unnecessary and unjustified burdens and costs and therefore it is key to maintain the current national discretion on the establishment and the features of the IGS.

Insolvency ranking

Do you have any comments on the following paragraphs?

3.44:**3.45:****3.46:**

3.47: To avoid unnecessary and unjustified burdens and costs, it is key to maintain the current national discretion on the establishment and the features of the IGS. This includes the insolvency ranking of the IGS.

3.48:

3.49: We don't agree with the Advice in that the insolvency ranking should be harmonized, see also our comment to 3.47.

3.50:

III Conditions for effective funding of IGS

Do you have any comments on the sub-section of III. Conditions for effective funding of IGS

Do you have any comments on the following paragraphs?

3.51:

3.52: To avoid unnecessary and unjustified burdens and costs, it is key to maintain the current national discretion on the establishment and the features of the IGS. This includes if the funding of the IGS should be ex-ante, ex-post or a hybrid model. Thus, as with the financing arrangement in IRRD, it shall be decided by the Member States. This is recognized in the paragraph. However, in the following paragraphs minimum requirements are proposed for the funding of IGS, for example in 3.56. The Advice should only state that Member States shall decide on their national funding model if they establish IGS.

In addition, it is important to highlight that ex-ante financing would mean that funds that the insurance companies could use to make investments to strengthen the competitiveness of EU in line with the ambition of SIU would not be available. This is not discussed in the Advice.

Adequate safeguards to ensure that liquidity is immediately available

Do you have any comments on the following paragraphs?

3.53:

3.54:

3.55:

3.56: There should be no minimum requirement regarding liquidity safeguards, see comment to 3.52.

Specific situations which need to be considered for ex-post levy collection

Do you have any comments on the following paragraphs?

3.57:

3.58:

3.59:

Considerations on combined or hybrid funding

Do you have any comments on the following paragraphs?

3.60:

3.61:

3.62:

IV Interaction between IRRD and harmonized IGS

Do you have any comments on the sub-section of IV. Interaction between IRRD and harmonized IGS?

Do you have any comments on the following paragraphs?

3.63:

3.64:

3.65:

Involvement of IGS in funding and application of resolution and insolvency proceedings

Do you have any comments on the following paragraphs?

3.66:

3.67:

3.68:

3.69:

3.70:

3.71:

Institutional set-up and arrangements: levels of coordination and cooperation between NRAs and IGS

Do you have any comments on the following paragraphs?

3.72:

3.73:

3.74:

3.75:

4. EIOPA's advice: overview

Do you have any comments to the overview of preferred policy options?

Please provide your comment to the overview of preferred policy options and specify the policy issue.

The industry strongly disagrees with the preferred policy options in the overview with the exception of continuation of policies. As with continuation of policies, it should only be non-binding guiding principles for the policy issues in the Table in Section 4 (see also our comment to 3.43).

5. Conclusion

Do you have any comments to the Conclusion?

Do you have any comments on the following paragraphs?

5.1: The Advice does not provide any evidence that the proposed minimum harmonization avoid "excessive burden on insurers, the market and society". In contrary, if implemented the proposed minimum common standards will lead to significant costs for Swedish and other EU insurance companies, which will in the end be paid by the policyholders through increased premiums. For most policyholders including all Swedish, the costs of harmonization of IGS will, therefore, greatly exceed the benefits.

5.2: If data are available that shows that policyholders have experiences material losses then EIOPA should present it. In the Advice and accompanying annex there are no such data presented. Neither is it presented evidence of that the harmonization of IGS would have led to material reduction in losses for policyholders as well as better transparency on protected policies. Therefore, these statements should be deleted from 5.2 and elsewhere in the Advice.

5.3: As no valid evidence is provided in the Advice that "could be counterbalanced by a potential increase in consumers' decision for insurance products", this claim should be deleted from 5.3.